Municipal Pension Plan

Contributing today for a secure tomorrow

2015 Annual Report

DOING IT RIGHT FOR MEMBERS

LOOKING AHEAD
Trustees detail their vision for the plan and its future: page 2

PENSION INCOME STUDY
Retirees' spending provides benefits for local communities and the province: page 3

INVESTMENT HIGHLIGHTS
Learn how the plan's market value continues to grow: page 5

Contents

Trustees' message

Plan delivers its pension promise 1

Pension-income spending study

. 3

Plan investments

Plan portfolio overview 4

Investment highlights 5

Analysis—understanding the shift in the plan's investment portfolio 8

bcIMC investment profiles 9

Responsible investing 11

Managing costs 11

Plan details

A look at our membership 13

Plan contributions 14

A look at our employers 14

Member groups and contribution rates 15

Member demographics are changing 16

Basic pension benefit 17

Pensions in pay 17

Cost-of-living adjustments 18

Actuarial valuation results 19

Plan rules and policy changes

Pension option factor table revision 20

Purchasing leaves of absence 20

Re-employment of a retired member provision 20

Pension Benefits Standards Act 21

Who we are

Your 2015 Trustees 22

Financial statements

. 27

Plan delivers its pension promise

Trustees' message

The Municipal Pension Board of Trustees (board) is pleased to report the Municipal Pension Plan (plan) has had another year of strong financial results. With an 8.7 per cent return on investments, the plan holds net assets valued at $43.7 billion. Plan membership grew by 3.5 per cent, totalling 309,478 active, inactive and retired members. During the fiscal year, 6,193 members retired, bringing the total of retired members to 84,777.

The plan continues to display its value and sustainability, as demonstrated at the 2015 annual general meeting when British Columbia Investment Management Corporation (bcIMC) Chief Executive Officer Gordon Fyfe joined us to speak about the plan's long-term investment strategy. He spoke of the need for bcIMC to take investment risk to keep the plan in balance—with contributions coming in and pension payments going out. However, since the level of risk is not the same for long-term investors (such as the plan) as it is for smaller investors, bcIMC is increasing its holdings of illiquid and private assets. Because bcIMC takes the long-term view (often 25 years or more), they are never forced to sell an asset and can find opportunities in economic down-turns to acquire desirable assets at a discount. This is the plan's advantage.

> "What British Columbia has found in this joint trusteeship is a very successful way to manage these plans for sustainability."
> —Gordon Fyfe, 2015 MPP Annual General Meeting

In 2015, we demonstrated the advantages and economic impact of public sector pension plans on British Columbia and its communities. As part of a pension-income spending study commissioned by the plan, a report by Vancouver-based research firm Urban Futures indicated public sector retirees spend their pension income where they live. Retirees supported $1.66 billion in provincial GDP and 31,000 jobs in 2014 by spending their pensions locally. Total government tax revenue also received a $310 million boost from public sector pension payments made within the same year. Profiles of several retired plan members support the report, with their real-life stories showing how their contributions support local businesses, contribute to the province's GDP and boost the total government tax revenue.

We spent a significant amount of time in 2015 exploring funding challenges and providing solutions for the group benefits program for retired members. This comprehensive review considered benefit improvements, funding limits, cost pressures, cost-containment and cost-sharing strategies, as well as evolving plan design standards and the effect on members. Group benefits for retired members are changing January 1, 2017.

Looking ahead, we will be enhancing online self-service for members with the launch of a new website and expanded online services in 2017. As the plan continues to grow and evolve, the board looks to keep pace by improving the experiences we offer our members, to better suit their day-to-day needs and expectations.

The plan is doing it right and continues to deliver on its pension promise.

JOIN THE PLAN'S FOLLOWERS ON TWITTER

Want to stay informed about the plan? Follow us on @MyBCMPP for up-to-date information on the financial status of the plan, key resources for members and employers, and the latest in pension industry news.

Pension-income spending study

The Municipal Pension Plan commissioned a report by Urban Futures, a Vancouver-based research firm, to measure a range of economic impacts associated with pension-income spending in the province. **Assessing the Economic Impacts of Pension-Income Spending in British Columbia** evaluated three specific sources: annual pension income paid to individuals from BC's public sector plans (including Municipal Pension Plan), household-spending data from Statistics Canada and economic input-output multipliers from BC Stats.

Published in October 2015, the report shows public sector retirees spend their pension income where they live, which benefits both their community and the BC economy. In 2014, BC public sector pension plans paid more than $3 billion in payments to plan members and their beneficiaries, and 97 per cent of those were BC residents. Retirees supported $1.66 billion in provincial gross domestic product (GDP) and 31,000 jobs in 2014 by spending their pensions locally; by comparison, the logging and forestry industry contributed $1.65 billion to the provincial GDP. Total government tax revenue also got a $310 million boost from public sector pension payments made the same year.

> "Pension-income spending had as strong an economic impact on provincial GDP as the forestry and logging industry." –Harold Heyming, chair of the Municipal Pension Board of Trustees, 2015

The full report is available on the StraightTalk section of the plan website. It is accompanied by stories featuring public sector retirees at their favourite local businesses, with spotlights on communities across British Columbia including Parksville, Surrey, North Vancouver, Kamloops, Prince George, Cranbrook and Radium Hot Springs. The business owners were also profiled, and their stories show the benefit retirement income has on their financial success—for example, Gordy's Café in Surrey and loyal customer Lesley Walker, who chooses to support the local business with plan retirement income she saved over her 28-year career as a registered nurse. By supporting Gordy's Café and owner Judy Sandhu, and other local businesses with her pension income, Lesley has a direct economic impact on her community, as well as a positive effect on the GDP.

Plan investments

Plan portfolio overview

The Municipal Pension Board of Trustees (board) is responsible for overseeing an investment portfolio of approximately $44 billion for the benefit of Municipal Pension Plan (plan) members. The board's primary financial objective is to ensure the plan's long-term sustainability, which depends in part on earning enough investment returns over a longer time horizon.

Five-year financial summary ($ millions)
as at December 31

	2015	2014	2013	2012	2011
Increase in assets					
Investment income	**$ 3,592**	$ 4,131	$ 4,737	$ 2,945	$ 924
Contributions					
Members	**863**	797	739	709	652
Employers	**993**	916	851	812	755
Transfers from other plans	**14**	44	14	19	22
Total increase in assets	**5,462**	5,888	6,341	4,485	2,353
Decrease in assets					
Benefit payments	1,601	1,460	1,380	1,299	1,187
Transfers to other plans	12	14	18	14	19
Retired member group benefits	86	74	68	65	59
Investment and administration costs[1]	124	102	88	82	68
Total decrease in assets	**1,823**	**1,650**	**1,554**	**1,460**	**1,333**
Increase in net assets	**3,639**	4,238	4,787	3,025	1,020
Net assets available for benefits at beginning of year	**40,087**	35,849	31,062	28,037	27,017
Net assets available for benefits at end of year	**$43,726**	$40,087	$35,849	$31,062	$28,037
Investment and administration costs as a percentage of net assets[1] (%)					
Investment management[1]	**0.24**	0.21	0.21	0.22	0.20
Benefits administration	**0.09**	0.09	0.10	0.11	0.09

1 External investment management costs incurred in the investment pooled funds by wholly owned corporations of $18.5 million (2014—$18.4 million; 2013—$20.2 million; 2012—$21.8 million; 2011—$14.0 million) reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets.

The board's investment strategy and overall framework for managing plan assets are outlined in the **Statement of Investment Policies and Procedures**. The board approves the long-term asset mix policy, recognizing that diversifying investments is a key principle in managing risk.

Investments are held in a range of asset types (e.g., bonds, mortgages, equities, real estate, infrastructure and private placements) across industry sectors and global markets. The board oversees the plan asset management through its investment management agent, British Columbia Investment Management Corporation (bcIMC).

Investment highlights

The plan's investment portfolio earned 8.7 per cent net of fees for 2015, exceeding the market benchmark of 7.0 per cent and adding over $727 million in value to the plan. As a result, the investment's market value increased from $40.2 billion to $43.5 billion.

These healthy investment results were achieved as global economic growth kept a steady but historically subdued pace throughout the year. While economic conditions in the U.S. improved, Canada fell into a brief, shallow recession for the first half of 2015. However, the effects of a lower Canadian dollar helped offset struggles in the energy sector due to continuing weak oil prices. There were fears of a severe slowdown in China, but its economy continues to grow at a healthy (albeit slower) pace. Over the year, China's developing equity market suffered volatility and a correction.

Combined public equities achieved solid returns of 10.5 per cent in 2015. This was in part because of the over 19 per cent return in global equities, which benefited from the weakening Canadian dollar. Soft commodity prices, most notably oil, resulted in weak performance in Canadian equities, which returned -6.7 per cent. By comparison, the combined fixed income portfolio, including money market, bonds and mortgages, returned 2.7 per cent, with weaker economic growth prospects and subdued inflation keeping interest rates low. Canadian real estate returned 5.3 per cent for the year, as investor demand remains strong, but with some noted regional and sector weakness.

Investment holdings ($ billions)
as at December 31, 2015

Global equities	$12.4	29%
Real estate	$6.1	14%
Canadian equities	$4.8	11%
Bonds	$4.7	11%
Emerging markets	$4.1	9%
Short-term	$3.0	7%
IRR[1]	$2.8	6%
Private placements	$2.6	6%
Real return bonds	$1.3	3%
Mortgages	$1.1	3%
All weather fund	$0.6	1%

1 Infrastructure and renewable resources

Investment portfolio[1]

as year ended December 31, 2015

	Market value ($ millions)	Asset mix market value (%)
Short-term		
Money market	$ 2,681	6.2
Bonds (1-5 years)	357	0.8
	3,038	7.0
Mortgages	1,052	2.4
Bonds		
Global government	317	0.7
Universe	4,416	10.2
	4,733	10.9
Real return bonds	1,343	3.1
Canadian equities		
Indexed	2,556	5.9
Actively managed	2,211	5.1
	4,767	11.0
Global equities		
US indexed	3,440	7.9
US actively managed	624	1.4
Global indexed	120	0.3
Global active	2,151	4.9
Thematic investments	399	0.9
Europe indexed	935	2.1
Europe active	938	2.2
Indexed global ESG	1,448	3.3
Asian indexed	983	2.3
Asian active	1,405	3.2
	12,443	28.5
Emerging markets	4,065	9.3
Real estate	6,127	14.1
Private placements	2,627	6.0
Infrastructure and renewable resources		
Infrastructure	2,274	5.2
Renewable resources	512	1.2
	2,786	6.4
All weather fund	559	1.3
Total investments	**$43,540**	**100.0**
2014 comparison[2]	**$40,218**	

1 Asset classifications vary from the financial statements for the purpose of performance reporting on strategic investments and infrastructure.

2 Restated to remove $7 million hedging liability at December 31, 2014.

Market value asset mix and rates of return

as at December 31, 2015

(All values %)	Approved range	Target asset mix market value	Actual asset mix market value	Rate of return	Performance benchmark
Short-term	0–10	2.0	7.0	1.1	0.6
Mortgages	0–11	6.0	2.4	4.0	3.4
Nominal bonds	5–20	12.0	10.9	3.3	3.5
Real return bonds	0–10	5.0	3.1	2.9	2.8
Fixed income	**15–35**	**25.0**	**23.4**	**2.7**	**3.2**
Canadian equities	6–20	13.0	11.0	(6.7)	(8.3)
Global developed equities	10–35	17.0	28.5	19.3	20.0
Emerging markets equities	3–15	10.0	9.3	8.3	2.0
Equity	**30–60**	**40.0**	**48.8**	**10.5**	**7.4**
Real estate	**10–25**	**18.0**	**14.1**	**5.3**	**5.6**
Private placements[1]	**1–13**	**7.0**	**6.0**	**18.3**[1]	**15.5**[1]
SIIF1,2	**2–16**	**10.0**	**6.4**	**9.4**[1]	**8.0**[1]
All weather	**0–5**	**0.0**	**1.3**	**2.7**	**16.8**
Total basic asset mix		100.0	100.0		
Annual rates					
2015				**8.7**	**7.0**
2014				11.3	9.8
2013				15.1	12.8
2012				10.3	8.2
2011				3.3	1.6
Five-year annualized rates					
2015				**9.7**	**7.8**
2014				9.9	8.2
Ten-year annualized rates					
2015				**7.3**	**6.4**
2014				7.7	6.7

1 The illiquid assets are only valued once a year as of December 31. The rates of return for private placements and strategic investments reflect the December 31, 2014, internal rates of return which is the industry standard for calculating returns for illiquid assets.

2 Strategic Investments and Infrastructure.

Analysis—understanding the shift in the plan's investment portfolio

The plan's long-term policy asset mix continues to reflect an increased focus on real assets such as land, buildings, regulated utilities and renewable resources. These assets are primarily tangible, physical investments in private markets ideally suited for the long-term financial objectives of pension plans. They typically provide reliable cash flows, appreciate in value and protect against inflation while avoiding the short-term volatility of public markets. These investments also allow for more direct asset management, enabling bcIMC to influence the strategic direction of these companies and create long-term value for the plan.

bcIMC investment profiles

Northwoods Village

GWL Realty Advisors

North Vancouver, British Columbia

Working with GWL Realty Advisors Inc., bcIMC began developing Northwoods Village in 2014, with completion expected in the first half of 2016. Northwoods Village is a mixed-use development that includes a four-storey 80-unit rental apartment building and 65,000 square feet of retail space. The residential portion is being built according to the Built Green Gold Standard, which uses environmentally-friendly materials, energy-efficient design and reduced water consumption. bcIMC acquired the property as raw land in 2002.

The development's Built Green Gold features include:

- High efficiency hot water heating systems
- Motion-controlled automatic lighting systems in common areas
- High levels of insulation
- Sustainably harvested wood
- Products with recycled content
- Durable products to reduce repair and replacement costs
- Locally manufactured products

Northwoods Village has exceeded expectations. All of the multi-family apartment units have been rented, and most of the retail space has been leased. Thanks to increased market demand, rental rates on the multi-family units are 20 per cent higher than the original forecast, resulting in higher-than-projected returns.

Dallas Distribution Portfolio

Courtesy of CBRE, Inc.

Dallas/Fort Worth, USA

The Dallas Distribution Portfolio consists of three class-A properties totalling 1.28 million square feet located in the Dallas/Fort Worth (DFW) industrial market. The DFW metropolitan area is a dynamic 12-county region, which posted the nation's third-fastest growing economy in 2014. Since acquisition, the occupancy rate of the portfolio has increased from 12 per cent to 94 per cent in less than 12 months through an aggressive leasing strategy.

The concrete tilt-up buildings, constructed in 2013 and 2014, have excellent access to major arterials, including SH-360, I-30 and SH-183, and are strategically located near the DFW airport. This investment is an example of a successful value-added strategy achieving yield premiums over core assets without any exposure to development or construction risk.

Teays River Investments LLC

Teays River Investments LLC (Teays River) is a U.S.-based company with interests in multiple food and agriculture-focused businesses that are leaders in their respective industries. Teays River's investments include companies in the organic milk, seed production and produce segments of production agriculture in the U.S. and internationally. Through its operating segments, Teays River operates over 500,000 acres of farmland across the United States and employs over 1,200 people. bcIMC closed the private equity transaction in 2015.

Teays River Investments, LLC

Responsible investing

The plan and bcIMC believe responsible investing is an integral part of investment. Companies that do a good job of managing environmental, social and governance matters have less risk and perform better financially over the longer term. Assessing and managing risk over the long term—the cornerstone of responsible investing—is a fundamental way for bcIMC to meet its mandate to grow and protect the value of the plan's fund.

The board and bcIMC are signatories to the United Nations-supported Principles for Responsible Investment, an international network of investors that share the goal of incorporating environmental, social and governance elements into the processes and activities of institutional investors.

MPP is a proud signatory to the Principles for Responsible Investment

Learn more at mpp.pensionsbc.ca › investments

Managing costs

Managing investment costs is important to the board, and bcIMC's fees continue to be extremely competitive. bcIMC operates on a cost recovery, not-for-profit basis, and its large asset size provides access to substantial economies of scale. The board focuses on generating net returns so that a greater proportion of investment return will pass through to the plan, contributing to its long-term sustainability.

Top 25 company holdings ($ millions)

Company	Total public equity exposure—worldwide		
	Percentage of portfolio (%)	Percentage of public equity (%)	Total exposure
Chinese state controlled companies[1]	0.9	1.9	$ 407
Royal Bank of Canada	0.7	1.5	321
The Toronto-Dominion Bank	0.7	1.4	304
Alphabet Inc.	0.4	0.9	187
Taiwan Semiconductor Manufacturing	0.4	0.8	173
Bank of Nova Scotia	0.4	0.8	173
Suncor Energy Inc.	0.4	0.8	171
Canadian National Railway Co.	0.4	0.8	161
Samsung Electronics Co. Ltd.	0.4	0.7	157
Brookfield Asset Management Inc.	0.3	0.7	149
Aberdeen Global - India Equity Fund	0.3	0.7	141
Apple Inc.	0.3	0.7	137
Manulife Financial Corp.	0.3	0.6	132
Housing Development Finance Corp. Ltd.	0.3	0.6	125
Bank of Montreal	0.3	0.6	122
Valeant Pharmaceuticals International	0.3	0.6	116
AIA Group Ltd.	0.3	0.5	116
Microsoft Corp.	0.3	0.5	116
Enbridge Inc.	0.3	0.5	115
Tencent Holdings Ltd.	0.3	0.5	115
Exxon Mobil Corp.	0.2	0.5	103
Canadian Natural Resources Ltd.	0.2	0.5	101
BCE Inc.	0.2	0.5	100
Alimentation Couche Tard Inc.	0.2	0.5	99
Roche Holding AG	0.2	0.4	93
Total top 25	**9.0**	**18.5**	**3,934**
Total public equity			**$21,276**
Total portfolio			**$43,540**

1 Company exposures are based on the ultimate parent company exposure regardless of where the security is listed or traded. As a result, the above exposure report shows Chinese state controlled companies as one of the top exposures because the ultimate parent company for many companies in China, is the Chinese government.

Plan details

A look at our membership

The Municipal Pension Plan (plan) had 188,651 active members who worked for 940 employers as at December 31, 2015. The total membership is 309,478.

Membership profile (total: 309,478)
as at December 31, 2015

Active	188,651	61%
Retired	84,777	27%
Inactive[1]	36,050	12%

1 Members no longer employed by a plan employer but with money in the plan.

There are three types of members:

Active

Currently contributing, on a leave of absence or receiving benefits from an approved long-term disability plan. There are 188,651 active plan members, a 2.0 per cent increase from 2014.

Inactive

Ended their employment with a plan employer and left contributions in the plan. They may be eligible for a pension in the future. Those not eligible may become eligible if they return to work for a plan employer, contribute to the plan and accrue additional service. There are 36,050 inactive plan members, a 4.7 per cent increase from 2014.

Retired

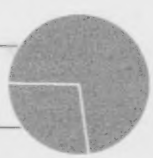
Currently receiving a pension, including a survivor or disability pension. There are 84,777 retired plan members, a 6.3 per cent increase from 2014.

Active members, by age (total: 188,651)
as at December 31, 2015

<40 years	58,167	31%
40 < 50 years	50,817	27%
50 < 55 years	31,838	17%
55 < 60 years	28,495	15%
≥ 60 years	19,334	10%

Active membership by gender
(total: 188,651)
as at December 31, 2015

Females	137,069	73%
Males	51,582	27%



Plan contributions

Plan members and employers both contribute to fund future pension benefits.

Contribution rates are set by the board and based on a valuation conducted by the plan's independent actuary. At least every three years, an independent actuary (a professional with specialized training in financial modelling, the laws of probability and risk management) performs a valuation. This ensures there is enough money in the pension fund to pay all members' basic lifetime pensions.

If a contribution rate increase is necessary, the Joint Trust Agreement requires that all contribution rate increases be split equally between members and employers.

Membership in the plan is divided into member groups, some with their own accrual rates or earliest retirement ages. Employers are annually assigned contribution rates based on their member group classification and the demographics of their respective employee populations.

An individual employer's blended rate can increase or decrease from year to year, depending on employee age, gender and salary.

A look at our employers

In 2015, the total number of Municipal Pension Plan employers was 940.

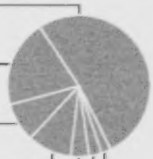
Employers (total: 940)
as at December 31, 2015

Health Sector	242	26%
Municipal[1]	199	21%
School Districts	59	7%
Group 5[2]	58	6%
Community Social Services	209	22%
Other	152	16%
Colleges	21	2%

1 Cities, districts, towns, villages, and regional districts
2 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters.

Total regular employer contributions by sector ($ millions)
for the year ended December 31, 2015

Health Sector	$463	52%
Municipal[1]	$181	20%
School Districts	$80	9%
Group 5[2]	$91	10%
Community Social Services	$34	4%
Other	$28	3%
Colleges	$21	2%



1 Cities, districts, towns, villages, and regional districts
2 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters.

Member groups and contribution rates

Group 1 Males

Group 2 Male and female police officers and firefighters, other than members of Group 5. These members have the same contribution rates as groups 1, 3 and 4 but an earlier normal retirement age because of working in public safety.

Group 3 A group for females, which closed on April 1, 1971. Members of this group elected, at the time of closing, to remain in Group 3 and continue contributing to the plan until they end plan membership or retire.

Group 4 Females

At the end of 2015, members in groups 1, 2, 3 and 4 were contributing 8.5 per cent of salary up to and including the year's maximum pensionable earnings (YMPE; $53,600 in 2015) and 10.0 per cent of salary above that amount. The YMPE is set annually by the federal government.

Group 5 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters. Members in Group 5 have a higher benefit accrual rate of 2.33 per cent. This means their pension benefit will accumulate faster, which is valuable because police officers and firefighters have an earlier retirement age. Group 5 participation is limited to police officers and firefighters.

At the end of 2015, members in Group 5 were contributing 10.44 per cent of salary up to and including the YMPE and 11.94 per cent above that amount.

Member demographics are changing

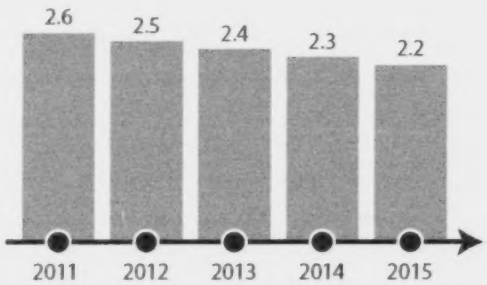
Demographics in Canada are changing, and this affects the plan.

People are living longer, and the proportion of seniors in the population is growing.

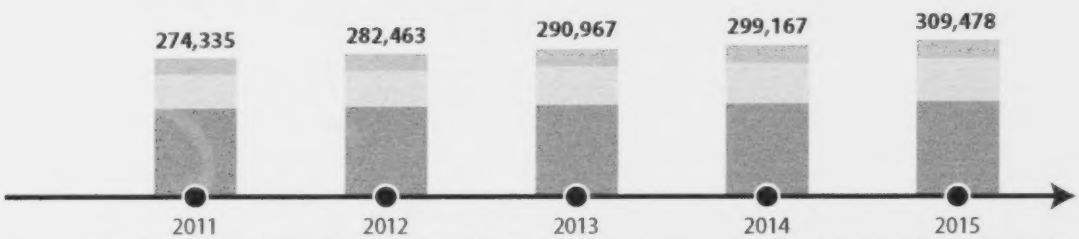
An aging membership, plus increasing retiree lifespans, means that the plan's retired member population is growing faster than the active member population. As a result, the plan's ratio of active members to retirees is getting smaller.

This affects the plan because the funding source for group benefits subsidies is based on the number of active members. So a decreasing number of active to retired members impacts the level of funding available for group benefit subsidies.

Ratio of active to retired members
as at December 31



Number of members
as at December 31



	2011	2012	2013	2014	2015
Inactive[1]	31,376	32,669	33,630	34,442	36,050
Retired	66,969	71,056	75,284	79,782	84,777
Active	175,990	178,738	182,053	184,943	188,651

1 Members no longer employed by a plan employer but with money in the plan.

Basic pension benefit

The basic pension benefit is based on the years of pensionable service a member has accrued in the plan and the member's highest average salary (HAS)—highest 60 months, not necessarily the last 60 months. It is the board's number one priority to pay out the basic pension benefit. The plan also provides survivor and disability benefits.

Pensions in pay

As at December 31, 2015, the average annual pension in pay was $17,400, and the median annual pension in pay was $12,400.

New pension profile

year ended December 31, 2015

Years of service	All new pensions (age of retirement)					Average salary	Average annual pension	Median annual pension	Average present value of pensions	Total present value of all new pensions
	< 55	55 < 60	60 < 65	≥ 65	Total					($ millions)
< 10	22	442	616	553	1,633	$ 56,500	$ 6,100	$ 4,700	$ 92,000	$ 150.2
10< 15	9	315	442	305	1,071	59,400	13,200	11,700	203,000	217.4
15 < 20	12	263	420	190	885	60,900	18,900	17,000	299,000	264.6
20 < 25	18	268	414	212	912	64,300	25,200	22,400	404,000	368.4
25 < 30	82	245	329	132	788	72,900	36,300	32,100	605,000	476.7
30 < 35	36	356	193	68	653	74,400	45,300	39,900	763,000	498.2
≥ 35	4	110	76	61	251	74,800	46,400	42,000	729,000	183.0
Total	**183**	**1,999**	**2,490**	**1,521**	**6,193**	**$63,400**	**$21,600**	**$16,400**	**$344,000**	**$2,158.5**

	Average service				
All	**24**	**20**	**18**	**15**	**18**

	Average age
All	**61**

New pensions 2011 to 2015
year ended December 31

	Regular	Post-retirement limited member[1]	Pre-retirement limited member[1]	Disability	Survivor	Deferred	LTD to pension	Total
2015	**4,891**	**23**	**92**	**4**	**98**	**663**	**422**	**6,193**
2014	4,468	21	93	1	65	647	572	5,867
2013	3,917	23	89	8	62	615	461	5,175
2012	3,693	19	37	8	64	650	591	5,062
2011	3,509	—	—	7	71	596	503	4,686

1 Prior to 2012, new limited members were included as part of new regular pensions.

Cost-of-living adjustments

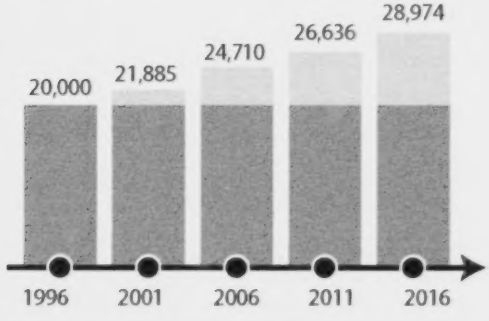
A non-guaranteed supplement to the basic lifetime pension, a cost-of-living adjustment (COLA) cannot exceed the annual increase in the consumer price index (CPI), or the amount of money in the plan's inflation adjustment account.

The board annually considers all relevant factors to determine if COLA will be granted.

Effective January 1, 2015, retired members received a COLA of 1.0 per cent, equal to the full increase in the CPI (measured from September to September of the preceding year).

The board monitors the plan's ability to grant any future COLA; once granted, COLA becomes part of the basic lifetime pension.

Basic pensions plus cost-of-living adjustments[1]



1 This is an illustration of the value of COLA historically.

Actuarial valuation results

Under the rules of the *BC Pension Benefits Standards Act* and the Municipal Pension Plan Joint Trust Agreement, the board is required to hire an independent actuary to conduct a review of the plan's funded position every three years. The actuary examines the plan's finances, membership and various relevant economic and demographic factors. Specifically, the actuary reviews:

- assets—money the plan has or is expected to receive
- liabilities—money the plan is paying out or expects to pay out

Once the review is complete, the actuary presents the findings to the board in a valuation report. This tells the board if there is a funding shortfall or a surplus adequate to maintain existing benefits for the future.

Completed in 2013, the 2012 valuation report determined:

- There was an unfunded liability of $1,370 million.
- The plan was 96.5 per cent funded.

To address the shortfall in funds, the board approved an increase in the total contribution rate of 1.4 per cent of salary. The rate increase is shared equally by employers and members, and became effective July 1, 2014.

The valuation results as at December 31, 2015, will be announced in fall 2016.

Actuarial valuation results[1] ($ billions)
as at December 31[2]

1 The actuarial valuation is conducted every three years as a way to assess the financial health of the plan to help ensure the plan remains financially sound.
2 Note: the 2015 valuation will be made available in fall 2016

Plan rules and policy changes

Pension option factor table revision

EFFECTIVE JANUARY 1, 2015

Improvements to sustainable cost-of-living adjustments triggered updates to the pension option factor tables effective January 1, 2015.

Purchasing leaves of absence (amendment no. 40)

EFFECTIVE APRIL 1, 2015

Plan rules section 41 (2) was repealed and replaced to allow the purchase of a leave of absence (or period of reduced pay) in cases where a member has contributed to a different employer in the Municipal Pension Plan (or another registered pension plan) during the leave of absence or period of reduced pay. The ability to purchase leaves of absence is subject to Income Tax Regulations limits. For more information, see PensionFacts *Purchasing leaves of absence* on the plan website.

Re-employment of a retired member provision (amendment no. 41)

EFFECTIVE JUNE 24, 2015

Plan rules section 74 was repealed and replaced to make it clear that where a member starts to receive their pension and later becomes re-employed with an employer that requires or offers participation in the plan, the retired member must continue to receive their pension and may not restart contributing to the plan.

The amendment also clarifies that the provision does not apply where the member is receiving a pension from the plan as a result of a member's death.

Pension Benefits Standards Act—updates that may benefit you (amendment no. 42)

EFFECTIVE SEPTEMBER 30, 2015

Immediate vesting—all active plan members are vested in the plan, which means they are entitled to a pension benefit, when eligible, after they make their first contribution to the plan.

Termination options—if a member ends employment after September 30, 2015, depending on their age and service, they are eligible for a commuted value payment, or an immediate or deferred pension. For more details, see PensionFacts *Your Pension Plan termination options*.

Temporary absences—temporary or seasonal workers may benefit from a change to the definition of a temporary absence. If a member is a temporary or seasonal worker, their employer can help them determine if this change affects them.

The *Pension Benefits Standards Act* protects the interests of pension plan members by setting minimum standards in areas such as eligibility, vesting, portability, survivor benefits, employer contributions and disclosure to members.

Who we are

Your 2015 Trustees

Chairs

Harold Heyming, Board Chair

Appointed by: BC Professional Fire Fighters Association and BC Police Association
Committee(s): Appeals panel, governance, valuation
Board term: 2004–2015

Frank Leonard, Vice Chair

Appointed by: Union of British Columbia Municipalities
Committee(s): Appeals panel, governance, valuation
Board term: 2002–current

Primary Trustees

Donisa Bernardo

Appointed by: Municipal Employees' Pension Committee
Committee(s): Appeals panel, benefits
Board term: 2001–current

Dennis Blatchford

Appointed by: Health Sciences Association of British Columbia
Committee(s): Benefits, bcIMC board of directors
Board term: 2001–current

Hilary Brown

Appointed by: British Columbia Public School Employers' Association
Committee(s): Communications and advocacy (chair), governance, interplan website review
Board term: 2012–current

Lucas Corwin

Appointed by: Province of British Columbia
Committee(s): Investment
Board term: 2008–current

Debra Ducharme

Appointed by: British Columbia Nurses' Union
Committee(s): Benefits (chair), governance
Board term: 2010–current

Chris Finding

Appointed by: Hospital Employees' Union
Committee(s): Communications and advocacy
Board term: 2015–current

Robert Hobson

Appointed by: Union of British Columbia Municipalities
Committee(s): Benefits, governance, investment (chair)
Board term: 2006–2015

Lyn Kocher

Appointed by: Health Employers Association of British Columbia
Committee(s): Communications and advocacy, valuation
Board term: 2001–current

Primary Trustees

Jane Lindstrom

Appointed by: Plan employer partners (Government of BC and Union of BC Municipalities)
Committee(s): Appeals panel, benefits
Board term: 2014–current

Steven Polak

Appointed by: Municipal Employees' Pension Committee
Committee(s): Investment (chair), interplan audit
Board term: 2002–current

Patti Price

Appointed by: Canadian Union of Public Employees, British Columbia
Committee(s): Valuation
Board term: 2006–current

Mary Procter

Appointed by: Health Employers Association of BC
Committee(s): Valuation, BC Pension corporate board of directors
Board term: 2009–current

Brian Schramm

Appointed by: Council of Joint Organizations and Unions
Committee(s): Benefits, investment
Board term: 2014–current

Angie Sorrell

Appointed by: Province of British Columbia
Committee(s): Governance (chair), interplan trustee education
Board term: 2008–current

Alternate Trustees

Ron Amos, CPA, CMA

Appointed by: British Columbia Public School Employers' Association
Committee(s): Benefits, investment
Board term: 2014–current

Bella Brown

Appointed by: British Columbia Nurses' Union
Committee(s): Communications and advocacy, valuation
Board term: 2012–2015

Tony Collins

Appointed by: Health Employers Association of British Columbia
Committee(s): Appeals Panel
Board term: 2013–current

Trevor Davies

Appointed by: Canadian Union of Public Employees British Columbia
Committee(s): Communications and advocacy, interplan website review
Board term: 2014–current

Alternate Trustees

John G. Johnston

Appointed by: Health Employers Association of British Columbia
Committee(s): Communications and advocacy, interplan website review
Board term: 2003–current

Kelly Knox

Appointed by: Hospital Employees' Union
Committee(s): Benefits
Board term: 2003–current

Diana Lokken, CPA, CMA, DPBA

Appointed by: Plan employer partners (Government of BC and Union of BC Municipalities)
Committee(s): Investment
Board term: 2013–current

Gary MacIsaac

Appointed by: Union of British Columbia Municipalities
Committee(s): Benefits
Board term: 2014–current

Rebecca Maurer

Appointed by: Health Sciences Association of British Columbia
Committee(s): Communications and advocacy (chair), governance
Board term: 2011–2015

Brian Northam

Appointed by: Council of Joint Unions and Organizations
Committee(s): Investment
Board term: 2001–current

Barbara Sinclair

Appointed by: Municipal Employees' Pension Committee
Committee(s): Appeals panel
Board term: 2012–current

Todd Sweet

Appointed by: BC Professional Fire Fighters Association and BC Police Association
Committee(s): Appeals panel, governance, valuation
Board term: 2005–current

Richard Taylor

Appointed by: Union of British Columbia Municipalities
Committee(s): Valuation
Board term: 2001–current

Philip Twyford

Appointed by: Province of British Columbia
Committee(s): Benefits, governance, valuation (chair)
Board term: 2012–current

Hilary Woodward

Appointed by: Province of British Columbia
Committee(s): Communications and advocacy, interplan audit (chair)
Board term: 2011–current

Gary Yee

Appointed by: Municipal Employees' Pension Committee
Committee(s): Investment, valuation, BC Pension corporate board of directors
Board term: 2014–current

Board member remuneration

year ended December 31, 2015

Board member	Meetings: Attended/ possible[1]	Meetings: Additional attended	Total paid[2]	Total	Paid to
Heyming, Harold, Chair[3]	15/18	9	$ 26,158.00	$ 6,980.00	Harold Heyming
	—	—	—	19,178.00	BCPFFA
Leonard, Frank, Vice Chair[3]	16/17	3	20,155.00	20,155.00	Frank Leonard
Amos, Ron	10/13	—	8,865.00	3,403.00	Ron Amos
	—	—	—	2,844.00	School District #69, Qualicum
	—	—	—	2,618.00	School District #71, Comox Valley
Bernardo, Donisa	7/7	—	9,859.00	9,859.00	Hospital Employees' Union
Blatchford, Dennis	9/10	—	4,363.00	873.00	Dennis Blatchford
	—	—	—	3,490.00	Health Sciences Assn. of BC
Brown, Bella	8/16	1	2,443.00	175.00	Bella Brown
	—	—	—	2,268.00	BC Nurses Union
Brown, Hilary	13/14	1	5,490.00	5,490.00	BCPSEA
Collins, Tony	3/6	—	1,047.00	1,047.00	Health Employers Assn. of BC
Corwin, Lucas	5/6	—	2,960.00	2,960.00	Ministry of Finance
Davies, Trevor	8/12	—	6,108.00	698.00	Trevor Davies
	—	—	—	5,410.00	CUPE BC Division
Ducharme, Debra Jean	9/16	1	8,865.00	8,865.00	BC Nurses Union
Finding, Chris	3/3	1	5,584.00	5,584.00	Hospital Employee Union
Hobson, Robert	15/18	1	14,640.00	14,640.00	Robert Hobson
Johnston, John	12/15	—	6,020.00	523.00	John Johnston
	—	—	—	5,497.00	Interior Health Authority
Knox, Kelly	9/10	—	5,759.00	1,047.00	Kelly Knox
	—	—	—	4,712.00	Hospital Employees' Union
Kocher, Lyn	13/17	—	8,858.00	8,858.00	Health Employers Assn. of BC
Lindstrom, Jane	7/10	—	4,603.00	4,603.00	Northern Health Authority
Lokken, Diana	10/11	—	10,557.00	10,557.00	Diana Lokken
MacIsaac, Gary	6/10	—	2,879.00	2,879.00	Union of BC Municipalities
Maurer, Rebecca	13/18	—	5,123.00	5,123.00	Health Sciences Assn. of BC
Northam, Brian	14/16	—	14,989.00	14,989.00	Brian Northam
Polak, Steven	15/15	1	13,820.00	13,820.00	Steven Polak
Price, Patti	11/11	1	7,678.00	2,443.00	Patti Price
	—	—	—	5,235.00	CUPE BC
Procter, Mary	10/11	1	4,973.00	4,973.00	Providence Health Care
Schramm, Brian	12/12	—	11,119.00	11,119.00	BCGEU
Sinclair, Barbara	5/6	—	3,403.00	3,403.00	Barbara Sinclair
Sorrell, Angie	16/16	4	9,074.00	9,074.00	Public Sector Employers' Council Secretariat
Sweet, Todd	13/15	1	12,302.00	12,302.00	Todd Sweet
Taylor, Richard	8/11	—	3,664.00	3,664.00	Richard Taylor
Twyford, Philip	11/16	2	4,013.00	4,013.00	Minister of Finance
Woodward, Hilary	11/15	—	6,882.00	1,221.00	Hilary Woodward
	—	—	—	5,661.00	Legislative Assembly of BC
Yee, Gary	11/14	—	14,232.00	14,232.00	CUPE BC
Total	—		**$266,485.00**	**$266,485.00**	

1 Comparison of the number of meetings attended vs. the number of meetings scheduled. The number of meetings scheduled varies by trustee due to committee membership.

2 Total Remuneration Paid includes attendance at board & committee meetings, educational events, conferences, and preparation and travel time for these meetings/events.

3 Includes board chair annual stipend of $6,980 and vice-chair annual stipend of $5,235.

Agents and service providers

British Columbia Investment Management Corporation is one of Canada's largest investment managers, administering $123.6 billion across all major asset classes, with global exposure.

British Columbia Pension Corporation is among Canada's largest pension administrators, annually collecting more than $3.4 billion in contributions and paying more than $3.9 billion in benefits. It provides plan information to members and employers, manages contributions and member records, pays pension benefits and provides policy, financial and communications services to the board.

Eckler Ltd. serves as the actuary for the plan. The actuary conducts an actuarial valuation on the plan's funding every three years and supports the board in its decision-making, as appropriate. The next valuation will be presented to the board in fall 2016.

KPMG LLP provides external audit services for the plan.

Pacific Blue Cross administers retired plan members' access to group extended health and dental benefit plans.

Shawn Hatch, legal advisor, is the legal counsel for the plan.

Financial statements

PENSION CORPORATION
We make it easy

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
Fax:
250 953-0429

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent Auditor's Report attached to these financial statements.

Trevor Fedyna, CPA CGA, C. Dir
Vice President Corporate Services
and Chief Financial Officer
British Columbia Pension Corporation

Kevin Craig, CPA CA
Director, Financial Services
British Columbia Pension Corporation

June 29, 2016

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the accompanying financial statements of the Municipal Pension Plan, which comprise the statement of financial position as at December 31, 2015, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Pension Plan as at December 31, 2015, and its changes in net assets available for benefits and its changes in accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

June 29, 2016
Vancouver, Canada

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ millions)

As at December 31	Note	2015	2014
Assets			
Investments	3a	$ 43,540	$ 40,218
Receivables			
Members' contributions		34	31
Employers' contributions		36	34
Due from sale of investments		1,691	13
Derivatives	3b	5	24
		1,766	102
Prepaid expenses		12	7
Total assets		45,318	40,327
Liabilities			
Payable for purchase of investments		1,417	168
Accounts payable and accrued expenses		21	27
Taxes payable		14	14
Derivatives	3b	140	31
Total liabilities		1,592	240
Net assets available for benefits		$ 43,726	$ 40,087
Accrued pension benefits			
Accrued pension benefits–basic	4a	$ 32,285	$ 30,293
Accrued pension benefits–non-guaranteed	4b	5,998	5,731
Retirement annuity account	4c	414	371
Accrued pension benefits		38,697	36,395
Surplus			
Funding surplus	5a	2,671	1,722
Measurement differences between funding and accounting positions	5a	2,358	1,970
Surplus		5,029	3,692
Accrued pension benefits and surplus		$ 43,726	$ 40,087

The accompanying notes are an integral part of the financial statements including:

- Commitments (note 6)
- Financial risk management (note 7)
- Fair value of financial instruments (note 8)
- Contingencies (note 9)
- Capital disclosures (note 10)

Approved by the Municipal Pension Board of Trustees:

Steven Polak
Trustee,
Municipal Pension Board of Trustees

Hilary Woodward, CPA CA
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ millions)

For the year ended December 31	Note	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Totals 2015	Totals 2014
Increase in assets							
Investment income	11	$ 3,045	$ 462	$ 85	$ -	$ 3,592	$ 4,131
Contributions	12						
Members		758	99	2	4	863	797
Employers		855	46	2	90	993	916
		1,613	145	4	94	1,856	1,713
Transfers from other plans		12	2	-	-	14	44
Total increase in assets		4,670	609	89	94	5,462	5,888
Decrease in assets							
Benefits	13	1,498	77	19	7	1,601	1,460
Transfers to other plans		7	5	-	-	12	14
Retired member group benefits	14	-	-	-	86	86	74
Investment and administration costs	15	111	12	-	1	124	102
Total decrease in assets		1,616	94	19	94	1,823	1,650
Increase in net assets before transfers		3,054	515	70	-	3,639	4,238
Account transfers	16	275	(248)	(27)	-	-	-
Increase in net assets		3,329	267	43	-	3,639	4,238
Net assets available for benefits beginning of year		33,985	5,731	371	-	40,087	35,849
Net assets available for benefits end of year		$ 37,314	$ 5,998	$ 414	$ -	$ 43,726	$ 40,087

The accompanying notes are an integral part of the financial statements.

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ millions)

For the year ended December 31	Note	2015	2014
Increase in accrued pension benefits			
Interest on accrued pension benefits		$ 1,978	$ 1,854
Benefits accrued		1,323	1,293
Account transfers		275	148
Increase in accrued pension benefits		3,576	3,295
Decrease in accrued pension benefits			
Benefits paid		1,584	1,461
Decrease in accrued pension benefits		1,584	1,461
Net increase in accrued pension benefits		1,992	1,834
Accrued basic pension benefits, beginning of year		30,293	28,459
Accrued basic pension benefits, end of year	4a	32,285	30,293
Non-guaranteed pension benefits			
Increase in non-guaranteed benefits accrued	4b	267	535
Accrued non-guaranteed pension benefits, beginning of year		5,731	5,196
Accrued non-guaranteed pension benefits, end of year	4b	5,998	5,731
Retirement annuity account			
Increase in retirement annuity account	4c	43	9
Retirement annuity account, beginning of year		371	362
Retirement annuity account, end of year	4c	414	371
Total accrued pension benefits, end of year		$ 38,697	$ 36,395

The accompanying notes are an integral part of the financial statements.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The following brief description of the Municipal Pension Plan (Plan) is a summary and is provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the Plan rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued in agreement with the *Public Sector Pension Plans Act*, SBC 1999, s.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the Provincial Government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions which administers and enforces the *Pension Benefits Standards Act* (PBSA). PBSA governs employment pension plans that have active, inactive and retired members primarily based in British Columbia.

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and responsibilities

Partners

The Partners and appointing authorities representing the Plan members and Plan employers are responsible for appointing the 16 trustees and 16 alternate trustees representing Plan members and Plan employers. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, for directing amendments to the pension plan rules.

Board

The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by Plan surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 5a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, pension plan rule changes that result in contribution rate increases can only be initiated by the Partners. The Chair and Vice Chair are appointed by the trustees.

British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)

bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven-member board of directors of bcIMC.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund Plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

The following member and employer contributions apply to the majority of members, excluding a limited group with higher contribution rates required to fund the cost of their benefits.

Basic Account

Members contributed to the Basic Account 7.50% (6.80% to June 30, 2014) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (2015: $53,600; 2014: $52,500) and 9.00% (8.30% to June 30, 2014) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account.

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account.

Inflation Adjustment Account and Supplemental Benefits Account

Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account.

Retirement Annuity Account

Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account (RAA). Depending on benefit eligibility, the accumulated monies at retirement are used to fund the purchase of additional pension benefits or are paid out as a lump-sum benefit.

Effective September 30, 2015, all members are eligible for a pension benefit. Prior to September 30, 2015, all members with two years of contributory service were eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups),
- at age 60, with at least two years contributory service (age 55 for certain groups), or
- at age 55 or older, with age plus years of service totalling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Pension benefits

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2.0% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA. Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

As at January 1, 2016, retired members will receive a cost-of-living adjustment of 1.0% (2015: 2.0%).

f) Termination and portability benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age may choose:

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or prior to September 30, 2015, if under age 60 with less than two years of contributory service (age 55 for certain groups), a refund of contributions with interest. Members with less than two years of contributory service terminating on or after September 30, 2015, will have the same termination options as members with two years or more of contributory service and will no longer be able to choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 60 who becomes totally and permanently disabled as defined by the Plan, has at least two or more years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 60 or returns to work. A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

Supplemental benefits may also be funded from the Supplemental Benefits Account.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) (Tax Act) (registration number 0359158), except for any supplemental benefits which are funded in addition to the RPP. The Plan is not subject to income taxes but is subject to indirect taxes, including British Columbia provincial sales tax and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of the GST paid.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the Chartered Professional Accountants of Canada (CPA Canada) handbook, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension benefits.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service which incorporates the Board's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

f) Use of estimates

The preparation of financial statements, in conformity with Canadian GAAP for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments that are based on unobservable inputs as further described in note 8 and the calculation of the accrued pension benefit of the Basic Account for accounting and funding purposes as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

	2015			2014		
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
	($ millions)			($ millions)		
Short-term	$ 2,617	$ 421	$ 3,038	$ 1,976	$ 332	$ 2,308
Bonds	5,233	843	6,076	5,311	892	6,203
Canadian equities	4,106	661	4,767	4,228	710	4,938
U.S. equities	3,981	641	4,622	4,082	686	4,768
International equities	10,719	1,726	12,445	9,097	1,529	10,626
Mortgages	906	146	1,052	871	147	1,018
Real estate	5,277	850	6,127	5,225	877	6,102
Private placements	2,262	365	2,627	1,678	282	1,960
Infrastructure and renewable resources	2,400	386	2,786	1,965	330	2,295
	$ 37,501	$ 6,039	$ 43,540	$ 34,433	$ 5,785	$ 40,218

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. INVESTMENTS (continued)

a) Investments (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, bonds, Canadian equities, U.S. equities and international equities. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments. The Plan directly holds bonds of $12 million (2014: $11 million), short-term investments of $123 million (2014: nil) and infrastructure and renewable resources investments of $526 million (2014: $359 million). The Basic and IAA portfolios are combined for investment management purposes.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Bonds consist of government and investment grade corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, consist mainly of investments in the equity markets of Europe and Asia, as well as key emerging markets.

Short-term investments are valued using current market yields. Bonds are valued based on current market yields and in some cases quoted market prices. Canadian, U.S. and international equities are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside the structure of public markets.

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Infrastructure and renewable resources consist of privately-owned and managed infrastructure assets, timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

bcIMC established collateral accounts for the Plan which are pledged as security for future investment opportunities. As at December 31, 2015, $12 million (2014: $11 million) of bonds and $123 million (2014: nil) of short-term investments are being held as collateral for letters of credit.

A separate investment asset portfolio is not held for the Retirement Annuity Account assets. For administrative purposes, RAA assets are included in Basic Account investments (2015: $414 million; 2014: $371 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. INVESTMENTS (continued)

b) Derivatives

The details of directly held foreign exchange forward and future contracts are as follows:

Year	Number of contracts	Expiry	Notional value	Receivable (payable)
			($ millions)	
2015	1	January–March 2016	$ 52	$ -
	8	April–June 2016	729	4
	0	July–September 2016	-	-
	1	October–December 2016	46	1
				5
	22	January–March 2016	1,922	(82)
	7	April–June 2016	291	(28)
	7	July–September 2016	298	(17)
	17	October–December 2016	310	(13)
				(140)
				$ (135)
			($ millions)	
2014	13	January–March 2015	$ 648	$ 18
	1	April–June 2015	23	2
	3	July–September 2015	71	3
	3	October–December 2015	72	1
				24
	9	January–March 2015	400	(18)
	3	April–June 2015	54	(3)
	6	July–September 2015	129	(7)
	6	October–December 2015	189	(3)
				(31)
				$ (7)

Derivative contracts consist of foreign exchange forward and future contracts and are held indirectly through various pooled investment portfolios as well as directly by the Plan to manage exposure to foreign currency risk. Foreign exchange contracts held directly are reflected at fair value based on expected settlement amounts in effect at the date of the Statement of Financial Position.

The Plan directly holds a net payable of $135 million (2014: net payable $7 million) of derivatives, as detailed in the above schedule, as foreign exchange forward and future contracts with net payable position of $69 million (2014: net payable $7 million) for infrastructure and renewable resources, net payable of $25 million (2014: net payable $7 million) for real estate, net payable of $38 million (2014: net payable $1 million) for private placements and a net payable of $3 million (2014: net receivable $8 million) for international equities.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also, for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2012, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits to be $26,720 million (2009: $22,385 million).

Between valuations, an estimate of the actuarial position is required. This estimate, an extrapolation, has been made to December 31, 2015, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

The extrapolation calculated the liability for accrued basic pension benefits to be $32,285 million (2014: $30,293 million).

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals and changes in other factors, may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of the assumptions may be required.

The next full actuarial valuation will be carried out as at December 31, 2015. The results will be received subsequent to completion of the December 31, 2015, financial statements and therefore disclosed in the December 31, 2016, financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at December 31, 2012, a reduction in the investment return assumption from 6.50% to 6.25% would have increased the December 31, 2012, liability for accrued basic benefits of $26,720 million by $846 million or 3.17%. Changes to assumptions included in the actuarial valuation are interrelated and the cumulative impact of changed assumptions may be offsetting.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

b) Inflation Adjustment Account (IAA), non-guaranteed pension benefits

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, $5,998 million (2014: $5,731 million). The net increase of $267 million (2014: $535 million) in the IAA balance is comprised of employee and employer contributions, investment income and net transfers reduced by payments out of the account.

c) Retirement Annuity Account (RAA)

The RAA is comprised of additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to, purchase additional pension benefits at retirement, monies are transferred from the RAA to the Basic and the IAA to fund the additional benefits. No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA, $414 million (2014: $371 million).

The net asset increase of $43 million in the RAA balance for 2015 is comprised primarily of a one-time retroactive adjustment. During 2015, the Board approved the use of the five-year annualized rate of return instead of the one-year annualized rate to calculate investment income accruing to the RAA. Such adjustment resulted in a one-time adjustment of $40 million. During 2015, the remaining increase of $3 million (2014: $9 million) in the RAA balance was comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry age normal cost method (entry age method). This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus and the rate will be adjusted for the amortization of any unfunded actuarial liability.

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as yet unknown future cost-of-living adjustments.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at December 31, 2012, by the independent actuary. Based on the entry age method the valuation indicated an unfunded liability of $1,370 million.

An estimate of the actuarial position of the Plan for funding purposes has been made to December 31, 2015 and 2014, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

This estimate, an extrapolation, produced a surplus of $2,671 million as at December 31, 2015 (2014: $ 1,722 million), as follows:

As at December 31	2015	2014
	($ millions)	
Net assets available for basic pension benefits	$ 37,314	$ 33,985
Actuarial asset value adjustment	(3,545)	(3,398)
Smoothed assets for basic pension benefits	33,769	30,587
Present value of future contributions (entry-age method)	12,475	11,995
Present value of future amortization	2,924	3,113
Net actuarial assets for basic pension benefits	49,168	45,695
Actuarial liability for accrued and future basic pension benefits	(46,497)	(43,973)
Entry-age method actuarial surplus	$ 2,671	$ 1,722

Changes in the extrapolated entry age method funding surplus between 2014 and 2015:

($ millions)	
Extrapolated entry-age method actuarial surplus at December 31, 2014	$ 1,722
Extrapolated change in actuarial liability for accrued and future basic pension benefits	(2,524)
Extraplolated change in actuarial assets for basic pension benefits	3,473
Extrapolated entry-age method actuarial surplus at December 31, 2015	$ 2,671

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

The next full actuarial valuation will be carried out as at December 31, 2015. The results will be received subsequent to completion of the December 31, 2015, financial statements and therefore disclosed in the December 31, 2016, financial statements.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry age method funding surplus and the financial statement accounting surplus are as follows:

	2015	2014
	($ millions)	
Entry-age method funding surplus	$ 2,671	$ 1,722
Actuarial asset value adjustment	3,545	3,398
Difference in actuarial methods–present value of future (entry age method) contributions	(12,475)	(11,995)
Difference in actuarial methods–presentt value of future amortization	(2,924)	(3,113)
Difference in actuarial methods–present value of future liabilities	14,212	13,680
Measurement differences between funding and accounting positions	2,358	1,970
Surplus for financial statement purposes	$ 5,029	$ 3,692

Actuarial asset value adjustment

For the purposes of determining the entry age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis which smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the smoothed value of the assets should be no more than 110% and no less than 90% of the market value of the assets. The smoothed value of the assets at December 31, 2015, was 90.5% (2014: 89.3% adjusted to 90%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry age method actuarial surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

	Unamortized gains	
	2015	2014
	($ millions)	
Adjustment to 90% of market value in 2014	-	(234)
2015	-	1,100
2016	1,474	1,217
2017	1,186	931
2018	636	384
2019	249	
Total adjustment	$ 3,545	$ 3,398

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses an entry age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the plan.

Transitional period

The Agreement specifies a transitional period during which actuarial deficits will be amortized over 15 years, as required by the PBSA, and actuarial gains must be used to achieve the following objectives, in order of priority:

1. Eliminating any unfunded liability.
2. Simultaneously rebalancing member and employer contribution rates to the level of member contribution rates in effect at the time the Agreement was negotiated and providing specified benefit improvements.
3. Transfer funds in equal measure to a Contribution Rate Stabilization Reserve and to the IAA, to an aggregate total of $1 billion. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

If these transitional objectives are achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

Contribution rate stabilization account

The Partners, in consultation with the Trustees, amended the Agreement in October 2014 to allow, notwithstanding the items specified in the transitional period, the establishment of a contribution rate stabilization account following the December 31, 2015, actuarial funding valuation. If the 2015 valuation identifies a surplus, the surplus amount, not to exceed $2.5 billion, will be retained in a contribution rate stabilization account. Any surplus in excess of $2.5 billion will be transferred to the IAA, provided that the transfer will not exceed the amount required to ensure that the IAA can support cost-of-living adjustments at 100% of the increase in the CPI.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustments. The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

The Board established a cap for cost-of-living adjustments for retired members to be applied effective January 1, 2016. Based on the 2012 actuarial valuation, the cap for January 1, 2016, has been set at 1.95%. The cap for sustainable cost-of-living adjustments will be reviewed following each subsequent triennial actuarial valuation.

c) Retirement Annuity Account (RAA)

No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA.

6. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2015, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $2.2 billion (2014: $1.9 billion).

7. FINANCIAL RISK MANAGMENT

a) Risk management framework

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments within asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

b) Market risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality requirements for investments.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. FINANCIAL RISK MANAGMENT (continued)

b) Market risk (continued)

Foreign currency risk

Foreign currency exposure arises from foreign-currency denominated investments held directly or indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward and future foreign currency contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. The Plan's total direct and indirect currency exposure, the impact of economic hedging and trading activities, and its net exposure as at December 31 are as follows:

	2015 Fair value by currency				2014 Fair value by currency			
($ millions Cdn dollar equivalent)	Total exposure	Economic hedges	Net exposure	% of total	Total exposure	Economic hedges	Net exposure	% of total
United States	$ 10,272	$ 2,355	$ 7,917	49%	$ 8,762	$ 1,485	$ 7,277	50%
Asia, excluding Japan	3,658	33	3,625	22%	3,189	20	3,169	22%
Other	1,406	-	1,406	9%	1,591	-	1,591	11%
Japan	1,103	1	1,102	7%	764	1	763	5%
Euro countries	1,925	933	992	6%	1,313	1,097	216	2%
Other Europe	750	1	749	4%	672	1	671	5%
United Kingdom	878	443	435	3%	894	125	769	5%
	$ 19,992	$ 3,766	$ 16,226	100%	$ 17,185	$ 2,729	$ 14,456	100%

Foreign currency risk (continued)

In addition to the investments in foreign currencies, the Plan held $23.7 billion (2014: $22.9 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 37% (2014: 36%) of the Plan's total investments.

Included in these totals as at December 31, 2015, are net accounts receivable (2014: net accounts payable) for outstanding sales and purchases of investments and net derivatives payable (2014: net derivatives payable).

As at December 31, 2015, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $1.6 billion (2014: $1.4 billion).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. FINANCIAL RISK MANAGMENT (continued)

b) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios, as at December 31, are as follows:

	Terms to maturity					2015
Interest-bearing financial instruments ($ millions)	Within 1 year	1 to 5 years	>5 to 10 years	Over 10 years	Total	Effective yield to maturity
Short-term	$ 2,652	$ 376	$ 10	$ -	$ 3,038	0.77%
Bonds	46	1,208	1,911	1,568	4,733	2.18%
Real return bonds*	78	5	60	1,200	1,343	0.63%
Mortgages	468	511	73	-	1,052	2.33%
Infrastructure and renewable resources debt	61	-	-	-	61	7.13%
	$ 3,305	$ 2,100	$ 2,054	$ 2,768	$ 10,227	

						2014
Short-term	$ 2,094	$ 214	$ -	$ -	$ 2,308	1.28%
Bonds	1,111	818	1,043	1,922	4,894	2.22%
Real return bonds*	9	5	177	1,118	1,309	0.63%
Mortgages	345	638	35	-	1,018	2.83%
	$ 3,559	$ 1,675	$ 1,255	$ 3,040	$ 9,529	

* Effective yield to maturity percentages are only the real return; inflation has not been considered

As at December 31, 2015, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $618 million (2014: $606 million).

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risks) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate, held directly and through pooled investment portfolios. bcIMC moderates this risk by diversifying its investments across asset classes based on criteria established in the SIPP. As at December 31, 2015, if equity prices increased or decreased by 10% with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $3.2 billion (2014: $3.1 billion).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. FINANCIAL RISK MANAGMENT (continued)

c) Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating ($ millions)	**2015**		**2014**	
AAA/AA	$ 5,325	52%	$ 6,272	66%
A	3,175	31%	1,668	17%
BBB	614	6%	571	6%
	9,114	89%	8,511	89%
Unrated	1,113	11%	1,018	11%
	$ 10,227	100%	$ 9,529	100%

The ratings used are defined by the Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lenders' capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters. The majority of unrated financial instruments consist of mortgages which are secured by real estate.

Credit exposure also exists for members' and employers' contributions receivable and other non-investment assets directly held by the Plan totalling $70 million (2014: $65 million) for the derivatives $5 million (2014: $24 million) and for the due from sale of investments of $1,691 million (2014: $13 million).

d) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in pooled funds that hold securities that are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable of $21 million (2014: $27 million) and payable for purchase of investments of $1,417 million (2014: $168 million) are generally due within one month. Derivatives payable of $140 million (2014: $31 million) are due within the next fiscal year.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

Level 1

Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3

Inputs that are not based on observable market data.

The Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan investments based on the fair value hierarchy as at December 31:

	2015			
	Level 1	Level 2	Level 3	Total
	($ millions)			
Pooled fund units	$ 2,558	$ 34,539	$ 5,782	$42,879
Direct investments	123	73	465	661
Investments	$ 2,681	$ 34,612	$ 6,247	$ 43,540
Derivatives	$ -	$ (135)	$ -	$ (135)

	2014			
		($ millions)		
Pooled fund units	$ 2,093	$ 33,444	$ 4,311	$39,848
Direct investments	-	11	359	370
Investments	$ 2,093	$ 33,455	$ 4,670	$ 40,218
Derivatives	$ -	$ (7)	$ -	$ (7)

Other financial instruments, which are carried at amortized cost in the financial statements, consist of receivables, payable for purchase of investment, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values due to their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because while prices are available, there is no market for these instruments.

During 2015 and 2014, there were no significant transfers of investments between levels.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Fair value hierarchy (continued)

The following table reconciles the Plan's Level 3 fair value measurements:

	2015		
	Pooled fund units	Direct investments	Total
	($ millions)		
Balance, beginning of year	$ 4,311	$ 359	$ 4,670
Net gain included in investment income	1,106	87	1,193
Purchases	1,004	45	1,049
Settlements	(639)	(26)	(665)
Balance, end of year	$ 5,782	$ 465	$ 6,247
Total unrealized gains included in investment income	$ 860	$ 85	$ 945

	2014		
	($ millions)		
Balance, beginning of year	$ 3,862	$ 290	$ 4,152
Net gain included in investment income	95	66	161
Purchases	1,061	22	1,083
Settlements	(707)	(19)	(726)
Balance, end of year	$ 4,311	$ 359	$ 4,670
Total unrealized gains (losses) included in investment income	$ (41)	$ 65	$ 24

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

bcIMC uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward currency contracts, and pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Valuation models (continued)

For more complex financial instruments, such as direct private placement investments held by the Plan, bcIMC uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. bcIMC's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that bcIMC believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparties where appropriate.

c) Valuation framework

bcIMC has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private placement investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where bcIMC is reliant on the third-party manager for the determination of fair value, bcIMC reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, bcIMC applies the following specific controls in relation to the determination of fair values:

- verification of observable pricing inputs,
- appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers,
- analysis and investigation of significant valuation movements, and
- review of unobservable inputs and valuation adjustments.

When third-party information such as broker quotes or pricing services is used to measure fair value, then bcIMC assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- verifying that the broker or pricing service is approved by bcIMC for use in pricing the relevant type of financial instrument,
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions,
- when prices for similar financial instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the financial instrument subject to measurement, and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year end in measuring financial instruments categorized as Level 3 in the fair value hierarchy:

2015 ($ millions)

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
					The estimated fair value would increase if:
Pooled fund units	$ 5,782	Net asset value	Net asset value	$ 5,782	The net asset value increased
Direct private placements	$ 336	Adjusted discounted cash flows	Discount rate	8.4% to 9.4%	The discount rate was lowered
Direct private agriculture investments	$ 129	Net asset value	Net asset value	$ 129	The net asset value increased

2014 ($ millions)

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
					The estimated fair value would increase if:
Pooled fund units	$ 4,311	Net asset value	Net asset value	$ 4,311	The net asset value increased
Direct private placements	$ 258	Adjusted discounted cash flows	Discount rate	8.7% to 9.7%	The discount rate was lowered
Direct private agriculture investments	$ 101	Adjusted net asset value	Fair value adjustment	$ 101	Fair value adjustment increased

Net asset value

Net asset value is determined by bcIMC based on fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and, accordingly, bcIMC is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as Level 3 within the fair value hierarchy.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value

Discount rate

Represents the discount rate applied to the expected future cash flows of the direct private placement investment. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

Fair value adjustments

Represents adjustments applied to the financial statements of the direct private agricultural investments. The financial statements of the direct private agricultural investments in 2014 were prepared at cost. The investment manager determined the necessary adjustments to present the investments at fair value based on judgment, on an investment by investment basis, and through review of information received from underlying investments and other sources.

e) Effects of unobservable input on fair value measurement

Although bcIMC believes that their estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on net assets attributable to holders of redeemable units.

	2015		2014	
	Favourable	Unfavourable	Favourable	Unfavourable
	($ millions)		($ millions)	
Pooled fund units	$ 591	$ (591)	$ 441	$ (441)
Direct investments	28	(28)	20	(20)
	$ 619	$ (619)	$ 461	$ (461)

The pooled fund units and direct private agriculture investments were valued based on information received from bcIMC, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by bcIMC. The favourable and unfavourable effects of reasonably possible alternative assumptions for the valuation of pooled fund units and direct private agriculture investments has been calculated by adjusting the respective underlying net asset value by 10%.

For direct private placement investments, bcIMC engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonably possible alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

9. CONTINGENCIES

The Government of Canada contests bcIMC's immunity from the imposition of goods and services tax under the *Excise Tax Act*, in respect of costs recovered by bcIMC from assets it holds in its pooled investment portfolios. In 2009, bcIMC was advised that the Canadian federal government was in discussions with the British Columbia provincial government regarding the application of goods and services tax and/or harmonized sales tax (HST/GST) to costs recovered by bcIMC from assets held by bcIMC in pooled investment portfolios. In December 2013, bcIMC filed a petition in the Supreme Court of British Columbia (Court) seeking a declaration confirming its crown immunity in respect of HST/GST relating to costs recovered from assets held in pooled investment portfolios.

In November 2015, the Minister of National Revenue issued HST/GST reassessments totalling $49,110,278 for the period July 1, 2010 to March 31, 2013. This reassessed amount comprises HST/GST payable of $41,455,513, interest and penalties totalling $8,672,733, less a previously made payment of $1,017,968 in December 2013. bcIMC has filed a Notice of Objection and provided CRA an unsecured letter of credit for $51,528,820, covering the reassessment amount plus additional interest to February 26, 2017.

bcIMC management is of the opinion that the Court will not deny bcIMC the ability to rely on its statutory crown immunity. However, if the Supreme Court determines that supplies to bcIMC's pooled investment portfolios are taxable under the *Excise Tax Act*, bcIMC estimates the cumulative HST/GST owing for the period from April 1, 2010 to December 31, 2015, to be in the range of $75 million to $85 million, including penalties and interest. This amount would be recoverable from assets in the pooled investment portfolios. The impact on the net asset value of pooled investment portfolio units held by the Plan, should HST/GST be payable, is estimated to be $26 million to $30 million.

As at December 31, 2015, this matter is unresolved.

10. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary (note 5). The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan and in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. In accordance with the PBSA, funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2012, and has three components: the Basic non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed IAA benefits and the RAA (note 1d). The next full actuarial valuation will be carried out as at December 31, 2015. The results will be received subsequent to completion of the December 31, 2015, financial statements and therefore disclosed in the December 31, 2016, financial statements.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of the PBSA.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

11. INVESTMENT INCOME

	2015			2014		
	Income allocation	Current period change in fair value	Total	Income allocation	Current period change in fair value	Total
	($ millions)					
Basic account						
Short-term	$ 20	$ 3	$ 23	$ 24	$ 5	$ 29
Bonds	128	45	173	149	354	503
Canadian equities	112	(392)	(280)	117	303	420
U.S. equities	80	603	683	85	698	783
International equities	265	1,227	1,492	305	578	883
Mortgages	35	2	37	51	2	53
Real estate	472	(58)	414	124	289	413
Private placements	278	284	562	328	124	452
Infrastructure and renewable resources	17	223	240	41	(20)	21
Derivatives	-	(214)	(214)	-	(8)	(8)
	1,407	1,723	3,130	1,224	2,325	3,549
Less retirement annuity account income allocation			85			39
Basic account			3,045			3,510
Inflation adjustment account						
Short-term	3	1	4	4	1	5
Bonds	20	5	25	25	59	84
Canadian equities	18	(66)	(48)	19	51	70
U.S. equities	13	87	100	14	113	127
International equities	42	187	229	51	94	145
Mortgages	6	-	6	8	-	8
Real estate	76	(21)	55	21	45	66
Private placements	45	42	87	55	20	75
Infrastructure and renewable resources	3	35	38	7	(4)	3
Derivatives	-	(34)	(34)	-	(1)	(1)
	226	236	462	204	378	582
Total investment income	$ 1,633	$ 1,959	$ 3,592	$ 1,428	$ 2,703	$ 4,131

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder, and as calculated by bcIMC, and income from directly held investments. Income allocation is comprised of interest, dividends and other investment payments. Change in fair value is comprised of realized gains and losses on the disposal of investments and unrealized gains and losses on investments held at year end. All income earned within a pooled investment portfolio is reinvested within the portfolio. The RAA was allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account. The RAA is allocated a share of Basic Account investment income based on the five-year annualized rate of return of the Basic Account as per the pension plan rules.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

12. CONTRIBUTIONS

	2015				
	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Total
	($ millions)				
Members' contributions					
Regular	$ 749	$ 98	$ -	$ 4	$ 851
Special agreements	-	-	2	-	2
Past service purchases	9	1	-	-	10
	758	99	2	4	863
Employers' contributions					
Regular	849	45	-	4	898
Special agreements	-	-	2	-	2
Past service purchases	6	1	-	-	7
Retired member group benefits	-	-	-	86	86
	855	46	2	90	993
Total contributions	$ 1,613	$ 145	$ 4	$ 94	$ 1,856

	2014				
	($ millions)				
Members' contributions					
Regular	$ 688	$ 94	$ -	$ 4	$ 786
Special agreements	-	-	1	-	1
Past service purchases	8	2	-	-	10
	696	96	1	4	797
Employers' contributions					
Regular	781	50	-	3	834
Special agreements	-	-	1	-	1
Past service purchases	6	1	-	-	7
Retired member group benefits	-	-	-	74	74
	787	51	1	77	916
Total contributions	$ 1,483	$ 147	$ 2	$ 81	$ 1,713

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

13. BENEFITS

	2015				
	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Total
			($ millions)		
Regular pension benefits	$ 1,207	$ -	$ -	$ 6	$ 1,213
Indexing-regular pension benefits	201	-	-	1	202
Termination and refund benefits	68	65	19	-	152
Death benefit payments	22	12	-	-	34
Disability pensions	-	-	-	-	-
	$ 1,498	$ 77	$ 19	$ 7	$ 1,601

	2014				
			($ millions)		
Regular pension benefits	$ 1,114	$ -	$ -	$ 5	$ 1,119
Indexing-regular pension benefits	185	-	-	1	186
Termination and refund benefits	66	51	14	-	131
Death benefit payments	14	8	-	-	22
Disability pensions	2	-	-	-	2
	$ 1,381	$ 59	$ 14	$ 6	$ 1,460

14. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits; for example, pension benefits which exceed the Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account (2015: $52 million; 2014: $43 million), they are funded from current contributions that would otherwise be employer inflation contributions. The amount of dental and extended health benefits that can be funded is limited to 0.8% of pensionable salaries. For 2015, this funding totalled 0.5% of pensionable salaries (2014: 0.5%).

To the extent medical service plan premiums are funded through the Supplemental Benefits Account (2015: $34 million; 2014: $31 million), they are funded from current contributions that would otherwise be employer basic contributions.

Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

15. INVESTMENT AND ADMINISTRATION COSTS

	2015	2014
	($ thousands)	
Investment management	$ 84,796	$ 66,892
Benefit administration	36,445	33,183
Board secretariat costs	1,076	625
Other professional services	682	839
Board remuneration and expenses	548	513
Actuarial	104	84
Audit	63	68
	$ 123,714	$ 102,204

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover both internal and external management costs incurred by bcIMC, except those external management fees related to investments managed by an underlying external manager where management fees are embedded in the net assets of the respective investment.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. Included in accounts payable is $4.5 million (2014: $3.0 million) due to the Pension Corporation related to these costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with Board support.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

16. ACCOUNT TRANSFERS

	2015			2014		
	Basic account	Inflation adjustment account	Retirement annuity account	Basic account	Inflation adjustment account	Retirement annuity account
	($ millions)					
Present value of current indexing supplements	$ 250	$ (250)	$ -	$ 128	$ (128)	$ -
Indexing of deferred pensions	7	(7)	-	8	(8)	-
Pensions purchased from retirement annuity account	18	9	(27)	13	5	(18)
	$ 275	$ (248)	$ (27)	$ 149	$ (131)	$ (18)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members (note 1d), from investment income earned and from excess investment return earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

When a deferred pension is paid, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $104 million (2014: $89 million) of the current IAA balance is for cost-of-living adjustments intended for deferred pensions but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return, the excess investment returns are transferred from the Basic Account to the IAA. There have been no excess investment return transfers to the IAA for the years ended December 31, 2002 through 2015. Excess investment returns are based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $14 billion of assets for 2015 (2014: $13 billion). The excess investment rate of return is determined by taking the difference between the actual five-year annualized market rate of return (9.7%) and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess investment return rate of return for 2015 was 3.2% (2014: 3.4%) resulting in an excess investment return amount of $444 million (2014: $435 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

16. ACCOUNT TRANSFERS (continued)

Also included in the cumulative negative excess investment return is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance. This component of the calculation is the opportunity cost related to the opening cumulative return deficit.

The cumulative negative excess investment return amount of $272 million, arising from the years 2002 through 2015, will be offset against future positive excess investment return amounts before positive excess investment return transfers would occur.

Negative excess investment return	2015	2014
	($ millions)	
Cumulative negative excess investment return, beginning of year	$ (652)	$ (989)
Interest applied to beginning of year amount	(64)	(98)
Excess investment return	444	435
Cumulative negative excess investment return, end of year	$ (272)	$ (652)

A separate RAA is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to, purchase additional pension benefits at retirement, monies are transferred from the RAA to the Basic Account and the IAA to fund the additional benefits.

17. PRIOR YEAR COMPARATIVES

The prior year comparatives have been reclassified to conform to the current year presentation.

MPP AGM 2016

DOING IT RIGHT

Contributing today for a secure tomorrow

OCTOBER 13
10 A.M. TO NOON
ANVIL CENTRE
NEW WESTMINSTER

PLAN ON IT
OCTOBER 13

mpp.pensionsbc.ca/agm

Email: MPP@pensionsbc.ca Twitter: @MyBCMPP
Phone: 250 953-3000 Fax: 250 953-0421 Toll-free: 1 800 668-6335 (Canada & U.S.)
Mail: Municipal Pension Plan, PO Box 9460, Victoria BC V8W 9V8

Municipal Pension Plan

Contributing today for a secure tomorrow

Reg. UM. Municipal Pension Board of Trustees
1998 083 MPP AR 2015_2016.07.19